

## Overview

Brazil has a large and diversified economy that offers US companies many opportunities to export their goods and services. As Brazil's largest single trading partner, the US enjoys a strong reputation in a variety of sectors. This report is one of a series that is published by the US Commercial Service's team of sector experts throughout the year. If you do not see an opportunity for your product here, please check out our other reports at [www.buyusa.gov/brazil](http://www.buyusa.gov/brazil) and consider contacting us directly to find out if we can help you export to Brazil.

## Summary

The Brazilian market for electronic security equipment is estimated at US\$ 920 million and offers excellent opportunities for U.S. companies. Best prospects include: access control equipment; CCTVs; home security equipment; alarm systems; GPS- based fleet monitoring technology; drug and explosive detectors, and fire prevention and detection equipment. To be successful in Brazil, U.S. manufacturers should either be established in the country, or have a local agent or distributor. The U.S. Commercial Service in Brazil assists U.S. companies find business partners in Brazil.

## Market Overview

The Brazilian market for electronic security equipment is estimated at US\$ 920 million. The sector has been registering an annual average growth of 8-10 percent over the last few years, and is expected to grow about 10 percent in 2005. According to local industry contacts, imports supply approximately 56% of the market, and US suppliers compete successfully holding approximately 50% of the import market.

The Brazilian electronic security market is a dispersed market and small and micro businesses account for 84 percent of the total of 5,400 companies in the market. However, although the number of small and micro businesses is abundant, they represent a small percentage of the total revenues, which are taken mostly by the large companies.

## Market Trends

High levels of urban violence and crime, drug trafficking and murders, as well as stricter security measures adopted for international travelers, and the implementation of port and maritime security programs, are contributing to the growth of the electronic security market in Brazil.

According to the local press, more than 300,000 cars are stolen in Brazil every year, and in large cities like São Paulo and Rio de Janeiro car hijacks occur every few hours. Cargo

US\$ millions	2003	2004 est*	2005 est*
<b>Market Size</b>	840	920	1000
<b>Local Production</b>	405	470	540
<b>Exports</b>	35	40	40
<b>Imports (Global)</b>	470	490	500
<b>Imports from US</b>	235	245	250

Exchange Rate of R\$ 2.96/US\$ 1.00. Statistical data are unofficial estimates. 2004 /2005 Figures are projected estimates. Sources: ABESE – Brazilian Association of Electronic Security Companies, industry contacts and publications.

robberies also cause losses of approximately US\$ 190 million every year. The number of cars and trucks equipped with some sort of intelligent security device is currently estimated at 250,000 and the number of companies that provide monitoring services increased from 15 in 1999 to 250 in 2004. Industry experts predict that the number of vehicles equipped with such devices will reach 500,000 by the end of 2005, still a small number relative to the 20 million automobiles and light vehicles that circulate in the country.

Port security is another segment that should expand in the next couple of years. Preliminary analysis indicates that investments in the order of US\$180 million will be necessary to comply with the requirements imposed by the International Ship and Port Facility Security Code (ISPS) and the International Maritime Organization (IMO) security initiatives.

Best prospects include access control equipment, CCTVs, home security equipment, alarm systems, drug and explosive detectors, and GPS-based fleet monitoring technology. Another segment that has a great potential is fire prevention. Brazil counts with reactive security devices such as fire extinguishers and sprinklers, but there is a need for intelligent systems that are able to prevent the fire and detect it at an early phase.

## Import Market

After the implementation of "Plano Real" in 1994, imports had a push of the macroeconomic stability provided by the new currency, boosting imports that rose until 1999. It was in this year that the Brazilian imports of electronic security equipment reached its peak, accounting for 82 percent of the market. After 1999, imports dropped year after year. In 2000, it represented 72 percent of the market; in 2001, it was down to 64 percent, and further down to 59 percent in 2002. In 2003, imports accounted for only 56 percent of the total products

commercialized in Brazil. This gradual decrease was mainly because several companies started to produce in Brazil.

However, according to Fabrício Sacchi, President of the Brazilian Association of Electronic Security Companies, this import decline is close to an end. Mr. Sacchi believes that the import market will reduce to about 50 percent of the market, but after that it will stabilize at a fifty-fifty split between domestic and imported products. He also believes that although many companies started to produce in Brazil, dependency on imported components for assembly is still high.

US companies have always enjoyed good receptivity in Brazil. Major competition comes from Canada and some Asian countries, while very little comes from European countries.

### Competition

International companies such as Bosch, Johnson Controls, Tyco, Siemens, Pelco, Samsung, GE and many others have already established a strong presence in the country through representatives, distributors, or joint-venture partners. These companies enjoy good market receptivity among large Brazilian corporations that demand quality, durability, and state-of-the art technology. However, they face many obstacles caused by less serious companies that import the products illegally.

According to local trade contacts, about 20 percent of the electronic security market is constituted of illegally imported products, most of which is believed to be of Asian origin. These products are smuggled at reduced costs, not paying the taxes and fees required by law. These illegalities are extremely detrimental to serious and honest companies. The illegal products are placed in the market at much reduced prices, an unfair competitive advantage. However, these smuggled products are generally of lower sophistication and do not possess warranty or technical assistance, many times leading their buyers to disappointments. Due to the illegality factor, no official statistic is available on these companies.

The other challenge for foreign companies that usually offer quality products that have higher costs is the lack of culture of Brazilian consumers on security issues. This results in making the price a major decision-making factor when buying new security equipment.

In order to overcome these challenges, companies have to invest heavily in product promotion and personnel training. They often organize seminars and symposiums to raise the level of security awareness among potential end-users. Training is also offered to their sales staff, agents, and distributors. Since most of the products are sold to end-users through system integrators, companies have worked closely with them, offering technical training and support. Constant visits to potential end-users are also part of the agenda of successful manufacturers and distributors of electronic security equipment. These strategies have shown positive effects and proved to be essential for the success in the Brazilian market.



### Highway concessionaires are investing more and more in electronic security

Unlike the United States, where the market for electronic security is composed of large companies that are highly specialized, companies in Brazil are in general small, often constituted of a single person that do not completely dominate the technology.

### End Users

According to local trade contacts, major end-users of electronic security equipment in Brazil are broken down as follows: financial institutions (30 percent), industrial and commercial facilities (25 percent), intelligent buildings (15 percent), small businesses and private homes (15 percent), and other (15 percent).

Financial institutions are the main end-users of electronic security equipment. Federal law No. 9017 of March 30, 1995, requires that financial institutions offer adequate security in their facilities. To comply with the law, they must hire trained security guards and install alarm systems that allow communication with the outside world in case of a robbery. Financial institutions are the most educated niche, normally demanding quality, warranty, and after-sales service.

The other promising niches are the small businesses and private homes. Due to high crime rates, individual citizens are increasing the security level at their workplace and homes. These end-users usually buy less expensive and less sophisticated equipment. However, this group generally upgrades their security system over time, especially after they suffer a robbery or a crime due to the inefficiency of the less sophisticated security systems that they bought in the beginning. This group is growing and local trade contacts consider it a very promising niche with repressed demand. Specialists estimate that Brazil has a potential of 3 million private users of electronic security; however, less than 10 percent of this potential actually possesses any electronic security system.

As stated earlier, the security requirements imposed by the ISPS Code and the IMO created an additional demand for electronic security devices at the ports. Brazil presently counts with 218 port terminals, of which 180 are international transit terminals. In an effort to help the ports comply with the new regulations, the Brazilian Ministry of Defense released US\$ 33 million in May 2004, and plans to approve another US\$ 50 million for this fiscal year. Main Brazilian ports that will receive funds are the ports of Rio Grande in Rio Grande do Sul, Paranaguá in Paraná, Itajaí in Santa Catarina, Itaquí in Maranhão, Fortaleza in Ceará, and the largest and busiest port in Latin America, the Port of Santos in São Paulo, which alone will require US\$ 90 million in investments in order to meet the international security standards.

### Market Access

According to local trade contacts, there are no specific technical standards required by the Brazilian government for electronic security equipment. However, U.S. equipment that has certifications issued in the United States are better accepted by high-end clients such as financial institutions and some industrial and commercial establishments. Nevertheless, Brazilian legislation requires Portuguese translation of all technical manuals.

Although there are no official regulations and technical standards for electronic security equipment, the Brazilian Association of Electronic Security Companies (Abese) created in 2002 a sector specific certification called Selo Amarelo de Qualidade (Quality Yellow Stamp). This certification is presently the only quality assurance that consumers may have with regards to electronic security companies. The certification is issued by Abese to companies in the electronic security sector: producers, distributors, and service companies. The certificate takes into consideration the management of the company and not the products used or produced by it.

In order for a company to qualify for the certificate it needs to: (1) be associated with Abese; (2) be in the electronic security market for over a year; (3) attend to Abese's two-day seminar of professional development; and (4) be audited by the Carlos Alberto Vanzolini Foundation, a renowned certifying organization in Brazil.

All imports in Brazil are subject to a number of taxes and fees, which are usually paid during the customs clearance process. There are four main taxes that account for the bulk of importing costs:

**Import duty:** is a federal tax levied on foreign products that enter Brazilian territory and is calculated on top of the CIF value. For the electronic security equipment, import duty ranges from 2 to 20 percent depending on the product. The average duty rate is 15 percent.

**Industrial Products Tax (IPI):** is a federal tax levied on both domestic and imported manufactured products. It is assessed at the point of sale by the manufacturer in the case of domestically produced products, but at the point of customs

clearance in the case of imports. The IPI is calculated on top of the CIF value plus import duty. The IPI for electronic security equipment varies from 10 to 20 percent.

**Merchandise Circulation Tax (ICMS):** is a state government value-added tax, applicable to both imported and domestic products. The ICMS tax on imports is assessed over the CIF value, plus import duty, plus IPI as its calculation base. The calculation of this tax is done in a way that the ICMS tax is calculated on top of itself. The ICMS rate varies among states. In the state of São Paulo it is 18 percent, but in most states it is 12 percent.

**PIS and Cofins:** these are new fees that were implemented in April 2004 and are applicable to both domestic and imported products and services. They are calculated in an extremely complex way on top of themselves. In general, the total effect of these fees sums up to approximately 12.63 percent of the CIF.

Brazilian manufacturers must also pay the above taxes, but American companies should keep in mind that, as the taxes are calculated in a compounding manner over the CIF value plus the import duty, the overall IPI, ICMS, PIS and Cofins of an imported product will be significantly higher than that of a locally manufactured product. Also, one should not forget that when distributors and trading companies sell the product, they are compensated for those taxes collected at the time of import.

In addition to the above, there are other costs and fees such as the warehousing cost, terminal handling fee, customs brokers' union fee, customs brokerage fee, transportation and bank costs, that all together usually come to approximately 78 percent of the FOB price.

For more information on such duties and tariffs, please refer to our report on Trade Regulations at:

<http://www.focusbrazil.org.br/ccg/chapters/Trade%20regs.pdf>



### Market Entry

In order to be successful in Brazil, U.S. manufacturers must either be established in the country or have a well-informed local representative. It is also important to have a distributor or system integrator that can offer after sales services, replacement parts, repair, and maintenance services.

When signing an agent or distribution contract with a Brazilian firm, it is important to use the services of law firms that are familiar with Brazilian legislation. Commercial distribution contracts are regulated by general Brazilian commercial law and not by specific legislation. However, there is a specific legislation that regulates the relationship between the foreign company and the Brazilian agent or sales representative. Under this legislation, the monetary compensation payable to the agent in case the contract is broken is usually very favorable to the agent.

Due to the size of the country, most distributors and system integrators cover only specific regions. They are usually small to medium-sized companies that lack financial capability to invest heavily in product promotion, technical training, and translation of technical manual. Therefore, it is important that the U.S. company provides financial support to some of those activities.

### Key Contacts and Upcoming Trade Shows

- For more information about export opportunities in this sector contact US Commercial Service Trade Specialist Marina Konno at:  
[Marina.Konno@mail.doc.gov](mailto:Marina.Konno@mail.doc.gov)
- For a good overview of exporting to Brazil, please look at our US Country Commercial Guide to Brazil:  
[www.focusbrazil.org.br/ccg](http://www.focusbrazil.org.br/ccg)
- US Commercial Service in Brazil:  
[www.buyusa.gov/brazil](http://www.buyusa.gov/brazil)
- For more reports on this sector in other countries, please visit Export.gov's site for US Commercial Service Market Research Worldwide:  
<http://www.export.gov/marketresearch.html>
- ABESE – Brazilian Association of Electronic Security Equipment São Paulo, SP, Brazil  
Phone/Fax: 55-11-5585-2677  
[www.abese.org.br](http://www.abese.org.br)
- Feisec / Semana Internacional da Segurança  
International Show on Electronic Security Technology  
May 3-6, 2005  
São Paulo, SP, Brazil  
[www.alcantara.com.br](http://www.alcantara.com.br)
- Exposeg 2005  
International Security Show  
XVII Brazilian Conference on Entrepreneurial Security  
May 31-12 June, 2005  
São Paulo, SP, Brazil  
[www.exposeg.com.br](http://www.exposeg.com.br)

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, The Department of Commerce does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements.

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